

CITY OF NORTH ENGLISH
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004

Juli Ochs, CPA

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City of North English

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Dan Strohman	Mayor	Dec. 31, 2005
Doug deRegnier	Council Member	Dec. 31, 2005
Mike Cobb	Council Member	Dec. 31, 2005
Lou Garringer	Council Member	Dec. 31, 2007
Diane Tyrrell	Council Member	Dec. 31, 2007
Carl Miller	Council Member	Dec. 31, 2007
Kathy S. O'Rourke	City Clerk	Appointed
Kandyce Smolik	Attorney	Appointed

CITY OF NORTH ENGLISH

Juli Ochs, CPA
1344 240th St.
Victor, Iowa 52347
319-647-2295 (Home)

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of North English, Iowa, as of and for the year ended June 30, 2004. These financial statements are the responsibility of city officials. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards of the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by officials, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than United States generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the city have not been audited for all the prior years. Accordingly, I was unable to satisfy myself as to the beginning net asset figure at July 1, 2003.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of North English as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

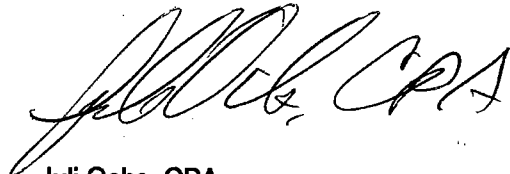
As discussed in Note 10, during the year ended June 30, 2004 the City of North English adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my reports dated June 21, 2005 on my consideration of the City of North English's internal control over financial reporting and my tests of its

compliance with certain provisions of laws, regulations, and contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 22 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the aforementioned financial statements and, in my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution of assets at July 1, 2003, as discussed in the third preceding paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Juli Ochs, CPA", is positioned above the printed name.

Juli Ochs, CPA

June 21, 2005

City of North English

Management's Discussion & Analysis

The City of North English provides this Management's Discussion and Analysis of its financial statements. This is an overview and analysis of the financial activities for the fiscal year ended June 30, 2004. Readers are encouraged to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City increased approximately 18.2% from fiscal year 2003 to 2004. Bond proceeds were received in 2004 in the amount of \$142,685.
- Disbursements of the City increased approximately 32.1% from fiscal year 2003 to 2004 due to a major projects - Water mains, Water Tower project, Housing Project
- The City's total cash basis net assets decreased approximately \$82,647 due mainly to funds expended over the 3 projects that were going on during this time. Of this amount, the assets of the governmental activities increased approximately \$17,098 and the assets of the business type activities decreased by approximately \$99,745.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis shows basic financial statement and an overview of cash receipts and disbursements. The cash basis of accounting does not take into consideration accounts receivable or accounts payable.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This Statement includes information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or declining.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, general government, and capital projects. These activities are financed mainly by property taxes and state/federal grants.
- Business Type Activities include the water system and sanitary sewer system. Fees charged to the users finance these activities.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund including Garbage, 2) the Special Revenue Funds, Road Use, and 3) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$175,930 to \$192,658. The analysis focuses on the changes in cash balances for governmental activities

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for services	1,277	-
Road Use Tax	82,538	80,680
Other operating grants	78,702	78,857
General receipts:		
Property tax	127,140	128,449
Local Option Sales Tax	105,748	96,552
Grants and contributions not restricted to a specific purpose	5,468	-
Unrestricted interest on investments	2,741	5,498
Garbage	43,795	43,836
Transfer – In	3,536	20,085
Miscellaneous	3,471	-
Bond proceeds	142,685	-
Other general receipts	-	7,136
Total receipts and transfers	<u>\$597,101</u>	<u>461,093</u>
Disbursements and transfers:		
Public safety	70,442	68,617
Public works	141,294	128,107
Culture and recreation	63,612	71,514
Community and economic development	140	-
General government	71,768	81,607
Debt service	-	54,992
Capital projects	<u>232,747</u>	<u>41,496</u>
Total disbursements and transfers	<u>\$580,003</u>	<u>446,333</u>
Increase (decrease) in cash basis net assets	17,098	14,760
Cash basis net assets beginning of year	<u>175,560</u>	<u>160,800</u>
Cash basis net assets end of year	<u><u>192,658</u></u>	<u><u>175,560</u></u>

Changes in Cash Basis Net Assets of Business Type Activities

Receipts:	Year Ended June 30,	
	2004	2003
Charges for services		
Water	161,594	145,083
Sewer	65,630	65,997
Total receipts	227,224	211,080
Disbursements and transfers:		
Water	199,478	173,305
Sewer	124,452	64,467
Transfers Out	3,039	-
Total disbursements and transfers	326,969	237,772
Decrease in cash basis net assets	(99,745)	(26,692)
Cash basis net assets beginning of year	65,108	91,800
Cash basis net assets end of year	(34,637)	65,108

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As North English, Iowa, completed the year, its governmental funds reported a combined fund balance of \$192,658, which is an increase of \$17,098. Major reasons for changes in balances from fiscal year 2003 are:

- The General Fund continues to receive less money because of budget cuts from the State.
- The Road Use Tax Fund revenue is based on per capita dollars from the state. The rate increased from fiscal year 2003 to fiscal year 2004 therefore revenues increased.
- The Local Option Sales Tax Fund revenues increased by \$11,811 from fiscal year 2003. Revenue increase was due to increased sales activity. Expenditures increased due to capital projects from fiscal year 2003 to fiscal year 2004.
- The Capital Improvement Fund was the major reason for the increase in the ending fund balance because of revenues received to cover the cost of the impending capital projects the City will be completing in the fiscal year 2005.
- The Debt Service Fund revenues and expenditures were less because of bond debt being paid off.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Utility Fund balance decreased by \$40,923 from fiscal year 2003 due mainly to increased water expense.

The Sewer Utility Fund balance decreased by \$58,822 from fiscal year 2003 due mainly to increased sewer expense.

BUDGETARY HIGHLIGHTS

The City amended its budget on May 26, 2004 resulting in an increase of receipts of approximately \$335,000 disbursements of approximately \$344,800 related to various projects started in fiscal year 2004.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$606,908 in bonds and notes and 33,274 in other long-term debt, compared to approximately \$723,641 last year, as shown below.

Outstanding Debt at Year-End

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
General Obligation Corporate Purpose Bonds		
1995 Water Treatment Plant	18,200	52,276
1999 Wastewater Project	-	53,531
Revenue Notes		
2004 Water Tower Project (State Revolving Fund)	590,000	590,000
Leases		
Computer System	14,718	17,716
2001 Backhoe	18,556	-
Total	<u>\$626,644</u>	<u>723,641</u>

Debt decreased because the 1999 Wastewater General Obligation Debt was paid off in 2004.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City of North English's elected and appointed officials considered factors such as tax rates and fees that will be charged for various City activities when they adopted the 2005 budget.

Projects being continued, completed for fiscal year 2005 are:

- Water Tower Project

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for all money received. If you have questions about this report or need additional information, please contact Kathy O'Rourke, City Clerk, Box 220, North English, Iowa 52316 or call 319-664-3810.

City of North English
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

Exhibit A

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 70,442	323	-	-	(70,119)	-	(70,119)
Public works	141,294	43,795	82,538	-	(14,961)	-	(14,961)
Culture and recreation	63,612	233	16,182	-	(47,197)	-	(47,197)
Community and economic development	140	-	-	-	(140)	-	(140)
General government	71,768	721	-	-	(71,047)	-	(71,047)
Capital projects	232,747	-	82,520	-	(170,227)	-	(170,227)
Total governmental activities	580,003	45,072	161,240	-	(373,691)	-	(373,691)
Business type activities							
Water	199,478	161,594	-	-	-	(37,884)	(37,884)
Sewer	124,452	65,630	-	-	-	(58,822)	(58,822)
Total business type activities	323,930	227,224	-	-	-	(96,706)	(96,706)
Total	\$ 903,933	272,296	161,240	-	(373,691)	(96,706)	(470,397)
General Receipts:							
Property tax levied for:							
General purposes					\$ 127,140	-	127,140
Local option sales tax					105,748	-	105,748
Grants and contributions not restricted to a specific purpose					5,468	-	5,468
Unrestricted interest on investments					2,741	-	2,741
Bond proceeds					142,685	-	142,685
Miscellaneous					3,471	-	3,471
Transfers					3,536	(3,039)	497
Total general receipts and transfers					390,789	(3,039)	387,750
Change in cash basis net assets					17,098	(99,745)	(82,647)
Cash basis net assets beginning of year, net prior period adjustments					175,560	65,108	240,668
Cash Basis Net Assets					<u>192,658</u>	<u>(34,637)</u>	<u>158,021</u>
Unrestricted					192,658	(34,637)	158,021
Total cash basis net assets					<u>\$ 192,658</u>	<u>(34,637)</u>	<u>158,021</u>

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	General	Special Revenue Road Use Tax	Capital Projects	Total
Receipts:				
Property Tax	\$ 127,140	-	-	127,140
Other City Tax	105,748	-	-	105,748
Use of money and property	2,389	309	43	2,741
Licenses and permits	2,266	-	-	2,266
Intergovernmental	18,335	82,538	53,963	154,836
Charges for services	45,971	-	-	45,971
Miscellaneous	3,621	-	8,557	12,178
Total Receipts	<u>305,470</u>	<u>82,847</u>	<u>62,563</u>	<u>450,880</u>
Disbursements:				
Operating:				
Public Safety	70,442	-	-	70,442
Public Works	54,181	87,113	-	141,294
Culture and recreation	63,612	-	-	63,612
Community and economic development	140	-	-	140
General government	71,768	-	-	71,768
Capital projects	-	-	232,747	232,747
Total Disbursements	<u>260,143</u>	<u>87,113</u>	<u>232,747</u>	<u>580,003</u>
Excess (deficiency) of receipts over (under) disbursements	<u>45,327</u>	<u>(4,266)</u>	<u>(170,184)</u>	<u>(129,123)</u>
Other financing sources (uses):				
Bond proceeds:				
SRF Loan	-	-	142,685	142,685
Operating transfers in (out)	(24,544)	-	28,080	3,536
Total other financing sources (uses)	<u>(24,544)</u>	<u>-</u>	<u>170,765</u>	<u>146,221</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	<u>20,783</u>	<u>(4,266)</u>	<u>581</u>	<u>17,098</u>
Balance beginning of year	143,198	30,619	1,743	175,560
Balance end of year	<u>\$ 163,981</u>	<u>26,353</u>	<u>2,324</u>	<u>192,658</u>
Cash Basis Fund Balances				
Unreserved:				
General Fund	163,981	-	-	163,981
Special Revenue Funds	-	26,353	-	26,353
Capital Project Fund	-	-	2,324	2,324
Total cash basis fund balances	<u>163,981</u>	<u>26,353</u>	<u>2,324</u>	<u>192,658</u>

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Receipts:			
Use of money and property	\$ -	564	564
Charges for services	151,059	65,066	216,125
Miscellaneous	10,535	-	10,535
Total Receipts	<u>161,594</u>	<u>65,630</u>	<u>227,224</u>
Disbursements:			
Business type activities	199,478	124,452	323,930
Total Disbursements	<u>199,478</u>	<u>124,452</u>	<u>323,930</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(37,884)</u>	<u>(58,822)</u>	<u>(96,706)</u>
Other financing sources (uses):			
Operating transfers in (out)	(3,039)	-	(3,039)
Total other financing sources (uses)	<u>(3,039)</u>	<u>-</u>	<u>(3,039)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	<u>(40,923)</u>	<u>(58,822)</u>	<u>(99,745)</u>
Balance beginning of year	33,480	31,628	65,108
Balance end of year	<u>\$ (7,443)</u>	<u>(27,194)</u>	<u>(34,637)</u>
Cash Basis Fund Balances			
Unreserved	<u>(7,443)</u>	<u>(27,194)</u>	<u>(34,637)</u>
Total cash basis fund balances	<u>(7,443)</u>	<u>(27,194)</u>	<u>(34,637)</u>

City of North English
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of North English is a political subdivision of the State of Iowa located in Iowa and Keokuk Counties. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, City of North English has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: North English Benefit Fire District.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

Capital Projects:

The Capital Projects Fund is used to account for construction projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of North English maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the General Government function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentality's; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, general obligation capital loan notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds & Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	16,908	456	32,000	17,700	48,908	18,156
2006			33,000	16,740	33,000	16,740
2007			34,000	15,750	34,000	15,750
2008			35,000	14,730	35,000	14,730
2009			36,000	13,680	36,000	13,680
2010			37,000	12,600	37,000	12,600
2011			38,000	11,490	38,000	11,490
2012			39,000	10,350	39,000	10,350
2013			40,000	9,180	40,000	9,180
2014			41,000	7,980	41,000	7,980
2015			42,000	6,750	42,000	6,750
2016			44,000	5,490	44,000	5,490
2017			45,000	4,170	45,000	4,170
2018			46,000	2,820	46,000	2,820
2019			48,000	1,440	48,000	1,440
Total	\$16,908	456	590,000	150,870	606,908	169,026

The Code of Iowa requires that principal and interest on general obligation bonds and general obligation loan notes be paid from the Debt Service Fund. However, during the year \$88,899 of general obligation bond principal was paid from the Enterprise Funds.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004 was \$6,588, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused holiday, vacation and comp time hours for subsequent use or for payment upon termination, retirement or death.

These accumulations are not recognized as disbursements by the City until used or paid. The City has no liability for earned vacation, sick or comp time leave termination payments payable to employees at June 30, 2004.

(6) Deficit Fund Balance

The General Fund had a deficit balance of \$38,259, the Enterprise Fund, Sewer had a deficit balance of \$27,195 and the Enterprise Fund, Water had a deficit balance of \$7,442 at June 30, 2004.

(7) Lease-Purchase Agreement

The City of North English has entered into an agreement for a lease-purchase agreement with the John Deere Leasing and Diversified Lenders for a backhoe and computer system respectively. The following is a schedule of the future minimum lease payments and the Present value of net minimum lease payments under the agreement in effect at June 30, 2004:

Year Ending	Amount
June 30,	
2005	14,896
2006	14,085
2007	4,106
2008	<u>3,763</u>
Total Minimum Lease Payments	36,850
Less amount representing interest	<u>(3,576)</u>
Present Value of net minimum lease payments	<u><u>33,274</u></u>

(8) Workers Compensation

The City is a member of the Iowa Municipalities Worker's Compensation Association (IMWCA) which provides worker's compensation coverage to its members. The members own an interest in the assets of the claims payment fund.

(9) Risk Management

The City of North English is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments' Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create

new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004, disbursements in the General Government function exceeded the amounts budgeted.

(12) Service Agreements

The City has an agreement with Iowa County to provide police protection for its citizens. The City paid \$68,297 under this agreement during the year ended June 30, 2004.

(13) Construction Contracts

The City entered into a construction contract for their water tower project totaling approximately \$324,495. They have also entered into a contract for the Housing Project in the amount of \$24,196. These construction contracts will be funded with local and revenue note resources in fiscal year 2005.

(14) Subsequent Events

The City pledged on February 9, 2005, \$5,000 each year for the next 20 years for the purchase of a new pumper truck for the Fire Department.

REQUIRED SUPPLEMENTARY INFORMATION

City of North English

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances-
Budget and Actual (Cash Basis) - Governmental Funds and Proprietary Funds

Required Supplementary Information

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Original
Receipts:				
Property Tax	\$ 127,140	-	127,140	122,545
Other City Tax	105,748	-	105,748	90,402
Use of money and property	2,741	564	3,305	6,130
Licenses and permits	2,266	-	2,266	1,250
Intergovernmental	154,836	-	154,836	123,775
Charges for services	45,971	216,125	262,096	265,500
Miscellaneous	12,178	10,535	22,713	5,000
Total Receipts	<u>450,880</u>	<u>227,224</u>	<u>678,104</u>	<u>614,602</u>
Disbursements:				
Public Safety	70,442	-	70,442	78,297
Public Works	141,294	-	141,294	135,000
Culture and recreation	63,612	-	63,612	64,500
Community and economic development	140	-	140	10,000
General government	71,768	-	71,768	66,700
Capital projects	232,747	-	232,747	20,314
Business Type	-	323,930	323,930	280,000
Total Disbursements	<u>580,003</u>	<u>323,930</u>	<u>903,933</u>	<u>654,811</u>
Excess (deficiency) of receipts over (under) disbursements	(129,123)	(96,706)	(225,829)	(40,209)
Other financing sources (uses):				
Bond Proceeds				
State Revolving Loan	142,685	-	142,685	-
Operating transfers in (out)	3,536	(3,039)	497	-
Total other financing sources (uses)	146,221	(3,039)	143,182	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	<u>17,098</u>	<u>(99,745)</u>	<u>(82,647)</u>	<u>(40,209)</u>
Balance beginning of year	175,560	65,108	240,668	241,162
Balance end of year	<u>\$ 192,658</u>	<u>(34,637)</u>	<u>158,021</u>	<u>200,953</u>

<u>Amounts</u>	<u>Final</u>	<u>Final</u>	<u>To Net</u>
			<u>Variance</u>
	122,545		4,595
	90,402		15,346
	6,130		(2,825)
	1,250		1,016
	123,775		31,061
	255,500		6,596
	5,000		17,713
	<u>604,602</u>		<u>73,502</u>

	78,297		7,855
	141,500		206
	64,500		888
	125,000		124,860
	70,000		(1,768)
	240,314		7,567
	330,000		6,070
	<u>1,049,611</u>		<u>179,787</u>

(445,009)

335,000

335,000

(110,009)

241,162

131,153

City of North English

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$394,800. The budgeted amendment is reflected in the final budgeted amount.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government function.

OTHER SUPPLEMENTARY INFORMATION

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Capital Projects		
	Water Tower Project	Housing Project	Total
Receipts:			
Use of money and property	\$ 43	-	43
Intergovernmental	-	53,963	53,963
Miscellaneous	-	8,557	8,557
Total Receipts	<u>43</u>	<u>62,520</u>	<u>62,563</u>
Disbursements:			
Capital projects	<u>144,761</u>	<u>87,986</u>	<u>232,747</u>
Total Disbursements	<u>144,761</u>	<u>87,986</u>	<u>232,747</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(144,718)</u>	<u>(25,466)</u>	<u>(170,184)</u>
Other financing sources (uses):			
Bond proceeds:			
SRF Loan	142,685	-	142,685
Operating transfers in (out)	3,039	25,041	28,080
Total other financing sources (uses)	<u>145,724</u>	<u>25,041</u>	<u>170,765</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements & other financing uses	<u>1,006</u>	<u>(425)</u>	<u>581</u>
Balance beginning of year	125	1,618	1,743
Balance end of year	<u>\$ 1,131</u>	<u>1,193</u>	<u>2,324</u>
Cash Basis Fund Balances			
Unreserved:			
Capital Project Fund	<u>1,131</u>	<u>1,193</u>	<u>2,324</u>
Total cash basis fund balances	<u>1,131</u>	<u>1,193</u>	<u>2,324</u>

Statement of Indebtedness

Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Notes									
Corporate purpose - Water Treatment Plant	February 8, 1995	3.75 - 5.00%	302,000	52,276	-	35,368	16,908	1,943	129
Corporate purpose - Sewer Improvement	June 4, 1999	5.12%	240,000	53,531	-	53,531	-	2,118	-
SRF Water Tower	April 16, 2003	3.00%	590,000	590,000	-	-	590,000	900	105
Total				<u>\$ 695,807</u>	<u>-</u>	<u>88,899</u>	<u>606,908</u>	<u>4,961</u>	<u>234</u>
Lease Purchase Agreements									
Purchase of Computer System	August 5, 2003	5.57%	18,045	-	17,716	2,998	14,718	818	4
Purchase of Backhoe	November 1, 2001	4.00%	41,150	27,834	-	9,278	18,556	108	71
Total				<u>\$ 27,834</u>	<u>17,716</u>	<u>12,276</u>	<u>33,274</u>	<u>926</u>	<u>75</u>

Bond and Note Maturities

June 30, 2004

	General Obligation Bonds		Revenue Bonds and Notes		
	Water General Obligation Note Issued February 8, 1995		Water Tower Issued April 16, 2003		
Year Ending June 30, 2004	Interest Rate	Amount			Total
2005	5.00%	16,908	3.00%	32,000	48,908
2006			3.00%	33,000	33,000
2007			3.00%	34,000	34,000
2008			3.00%	35,000	35,000
2009		-	3.00%	36,000	36,000
2010		-	3.00%	37,000	37,000
2011		-	3.00%	38,000	38,000
2012		-	3.00%	39,000	39,000
2013		-	3.00%	40,000	40,000
2014		-	3.00%	41,000	41,000
2015		-	3.00%	42,000	42,000
2016		-	3.00%	44,000	44,000
2017		-	3.00%	45,000	45,000
2018		-	3.00%	46,000	46,000
2019		-	3.00%	48,000	48,000
Total		\$ 16,908		590,000	606,908

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of North English, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated June 21, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with United States generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. During the year ended June 30, 2004 the City of North English adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

Compliance

As part of obtaining reasonable assurance about whether the City of North English's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards. Additionally, I noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Entity's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the general purpose financial statements of the City of North English. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved except for item 4,6,7,8,10,12 and 19.

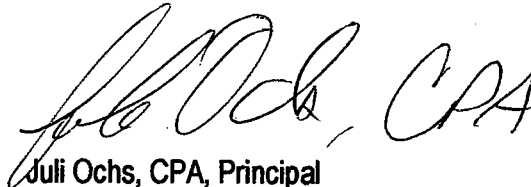
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of North English's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of North English's ability to record, process, summarize and report financial data consistent with the assertions of city officials in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item 1 and 2 are material weaknesses. Prior year reportable conditions have been resolved except for item 1, and 3. This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of North English and other parties to whom the City of North English may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the City of North English during the course of my audit. Should you have any questions concerning any of the above matters, I would be pleased to discuss them with you at your convenience.



Juli Ochs, CPA, Principal

June 21, 2005

CITY OF NORTH ENGLISH

Schedule of Findings

Year ended June 30, 2004

The following comments about the City of North English operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of financial statements of the City.

REPORTABLE CONDITIONS

- (1) Segregation of Duties – One important element in designing an internal control structure that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another.

During our review of the city's control procedures, we noted that one person has control over one or more of the following areas:

Accounting system – general journal/general ledger/journal entry function and custody of assets

Receipts – collecting, depositing, journalizing, posting, and reconciling.

Payroll – preparation and distribution.

Utilities – collections, depositing and recording.

Additionally, it was noticed that there is no review of the bank reconciliation.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. An independent review and reconciliation of the clerk and the Treasurer's balance should be performed

Response – Will look into the bank for a possible source.

Conclusion – The City might want to consider hiring part-time help to assist city clerk.
Response accepted.

- (2) Credit Cards – The City has a credit card for occasional use by the Public Works Department. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges. Additionally, the City is paying for Credit Card bills without an original invoice or approval from the initiating department. Late charges are being paid as well.

Recommendation – The City should adopt a formal written policy regulating credit card usage. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purpose, as well as the types of supporting documentation required to substantiate charges. All credit card bills should be accompanied by an original invoice with an approval from the person responsible for the charge. Bills should be paid timely as to alleviate late charges.

Response – All credit card bills will be accompanied by original invoices with approvals and bills will be paid to alleviate late charges.

Conclusion – Response accepted

- (3) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and also to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – Look into issue; try to improve, possible to try to do this quarterly.

Conclusion – Response accepted.

OTHER FINDINGS RELATED TO STATUTORY REPORTING

- (4) Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the General Government function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Bookkeeping mistake, will work on this.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish annual gross salaries as required by an Attorney General's opinion dated April 12, 1978.

Minutes of the January 2004, and June 2004 Council meetings were not published as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes in compliance with Chapter 372.13(6) of the Code of Iowa. The City should publish annual individual salaries as required and documented in the minutes.

Response – Will check with local paper; may try to email.

Conclusion – Response accepted.

- (7) Official Depositories –A resolution naming official depositories has not been approved by the City. A resolution would also allow for coverage up to a specified maximum amount of the City's deposits.

Recommendation – A resolution should be approved stating the official depository and the maximum amount allowed.

Response – Will approve bank after bank changes name with \$3,000,000 maximum.

Conclusion – Response accepted.

- (8) Questionable Disbursements –We noted several disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, since the public benefits to be derived have not been clearly documented. Moneys were spent on candy, pop, coffee, crackers, water, wax and armorall in the amount of \$158.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a derived close scrutiny. The line to be drawn between proper and an improper purpose is very thin.

Recommendation – The City should determine and document the public purpose served by these types of disbursements before authorizing any further payments. If this practice is continued, the city should establish written policies and procedures, including the requirement for proper documentation.

Response – We feel this serves the public purpose.

Conclusion – Response accepted, however the City should be aware of the test of public purpose when approving disbursements in the future.

- (9) Travel Expense –No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (10) Deposits and Investments – The City has not adopted a written investment policy that is in compliance with Chapter 12B and 12C of the Code of Iowa.

Recommendation – The City should adopt a written investment policy in compliance with Chapter 12B and 12C of the Code of Iowa.

Response – Will comply.

Conclusion – Response accepted.

- (11) Disbursements – Unused checks were not controlled. During my review of internal controls, it was noted that the city requires only one signature for a check to be issued and advanced signing of checks is not prohibited. Original invoices are not maintained and several disbursements were paid from statements with no supporting invoice. Checks in sequence were missing, voided checks unable to be located. Library made a disbursement to "Cash". Checks totaling \$1,236 were cancelled by the bank but not recorded in the computer system.

Recommendation – To strengthen internal control, checks should be maintained in a locked cabinet, prepared and signed by one person and then supporting vouchers and invoices should be made available along with the check to the second or independent person for review and countersignature. All original invoices should be maintained in an organized manner so as to be easily located. All statements should include original invoices approved by the responsible employee for the disbursement. No checks should ever be made to cash, instead endorsed to the employee responsible for the cash. All checks written from the City's bank account should be recorded in the financial system.

Response – Will check with Library Board to correct "cash" checks. Missing checks were with the old computer system and were destroyed.

Conclusion – Response accepted.

- (12) Payroll – The City has not maintained Form I-9's for any employees. Additionally, the City pays the utility bills of the employee's utility bills.

Recommendation – Employee forms such as the Form I-9, should be maintained for each employee for five years. Also, any compensation for City employees should be made in cash, subject to payroll regulations.

Response – We consider these acceptable employee benefits.

Conclusion – The city should consider subjecting the benefits to payroll regulations.

- (13) Transfers – During the fiscal year the City's transfers were not formally approved, not recorded and do not balance.

Recommendation – All transfers between funds should be formally approved, recorded and transfers-in should be balanced with transfers-out.

Response – Will work on appropriate procedures.

Conclusion – Response accepted.

- (14) City Code of Ordinances – The City has not compiled the City ordinances within the past five years.

Recommendation – Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a City shall compile a code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys." The City should compile the City ordinances as required.

Response – Will try to update codes, will contact company to perform this.

Conclusion – Response accepted

- (15) Annual Financial Report – The 2004 Annual Financial Report submitted to the State does not accurately reflect the activity recorded in the City's financial records.

Recommendation – The Annual Financial Report should accurately reflect the activity recorded in the City's financial records.

Response – The Capital Projects funds were not accurate and will have city clerk double check this in the future.

Conclusion – Response accepted.

- (16) Financial Condition – The General Fund, without the Local Option Sales Tax Fund, had a deficit balance of \$38,259 and the Enterprise, Water Fund, had a deficit balance of \$7,442 and the Enterprise, Sewer Fund, had a deficit balance of \$27,195.

Recommendation – The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response – Several capital project final payments in 2004-2005 and this will free up city funds.

Conclusion – Response accepted.

- (17) Local Option Sales Tax – Local option sales tax collections were recorded directly to the General Fund.

Recommendation – The City should credit all local option sales tax collections to the Special Revenue Fund, Local Option Sales Tax Account.

Response – Will set up account.

Conclusion – Response accepted.

- (18) Business Transactions – In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

- (19) Payment of General Obligation Bond – The General Obligation Bond related to sewer and water was paid out of the Enterprise Funds. General Obligation Bonds are to be paid from the Debt Service Fund and constitute Constitutional Debt of the City.

Recommendation – The General Obligation Bond should be paid out of the Debt Service Fund.

Response – We will set up Debt Service Fund to comply.

Conclusion – Response accepted.